Program Budget Narratives

Tax Reduction, Distribution, and Reserves

Property Tax Reduction

Property Tax Replacement

Owners of real property and certain tangible personal property located in Indiana are required to pay property taxes based on the assessed value of the property owned.

Prior to HEA 1001-2002ss, the State paid a Property Tax Replacement Credit to local units in an amount equal to 20% of its qualifying tax levy. In addition to the Property Tax Replacement Credit, the State also paid a Homestead Credit equal to 10% of the taxes owed on an individual's principal place of residence.

HEA 1001-2002ss modified the calculation of the State Property Tax Replacement Credit and increased the amount paid to local units. The Property Tax Replacement Credit is now payable on 20% of the unit's qualifying tax levy attributable to real property and non-business personal property and 60% of a school's general fund levy. The State Homestead Credit was also increased to 20% of the net taxes owed on an individual's principal place of residence.

Funds used for property tax replacement consist of revenues generated from the sales tax, individual income tax, and the riverboat wagering tax.

Personal Property Tax Replacement

Owners of real property and certain tangible personal property located in Indiana are required to pay property taxes based on the assessed value of the property owned.

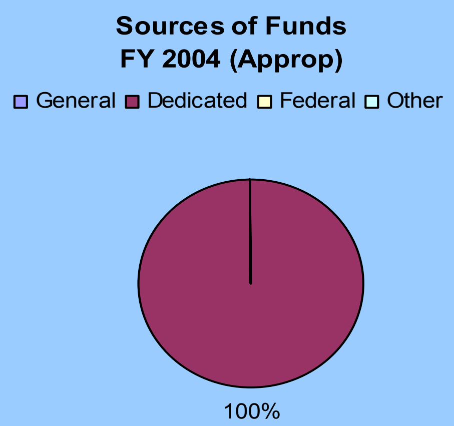
Prior to HEA 1001-2002ss, the State paid a personal property tax credit equal to the net tax liability generated from the first $12,500 of assessed value of a taxpayer's tangible personal property. HEA 1001-2002ss restructured Indiana's tax system and eliminated the personal property tax credit while increasing the State Property Tax Replacement Credit and the State Homestead Credit.

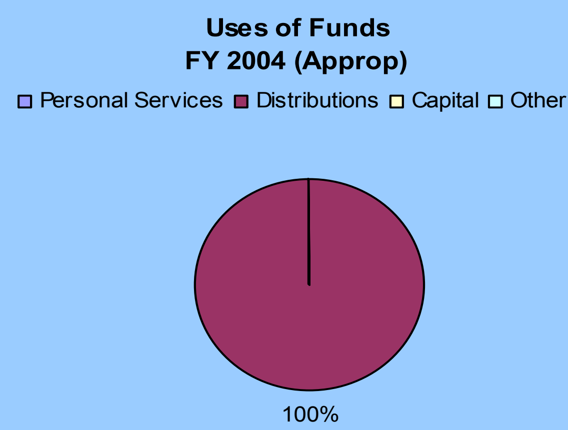
Welfare Property Tax Replacement

Prior to January 1, 2000, counties imposed property tax levies to fund welfare programs and services through the County Welfare Fund and the County Welfare Administration Fund. As of January 1, 2000, the State began to reimburse counties for expenditures related to the funding of welfare programs and services, because counties were prohibited from imposing property taxes to fund these items.

Program: 1100

	Actual FY 2001	Actual FY 2002	Estimate FY 2003	Appropriation FY 2004	Appropriation FY 2005
(All Funds)	$1,219,999,121	$1,209,943,442	$1,755,800,000	$2,115,244,068	$2,243,900,451





Excise Tax Distributions

Motor Vehicle Excise Tax Replacement

Individuals or other entities owning passenger cars, motorcycles, or trucks with a declared gross weight of 11,000 pounds or less are required to pay the motor vehicle excise tax on each vehicle owned. The tax paid on each vehicle is based on the age and value of the vehicle, and it is in lieu of personal property taxes that the vehicle would otherwise be subjected to.

Beginning in 1996, most of the excise tax rates were reduced by up to 50% of their prior level. The State reimburses local units of government for a portion of the revenue that was lost due to the decrease in the excise tax rates. The reimbursement to local units is based on a statutory formula and total payments to all local units may not exceed $236,212,440 in any year.

Funds used for motor vehicle excise tax replacement consist of monies transferred from the Lottery & Gaming Surplus Account and the State General Fund.

Alcohol Beverage Gallonage Tax

Alcohol wholesalers, wineries, and dealers pay a state tax based on the number of gallons of beer, flavored malt, liquor, wine, mixed beverages, liquid malt, or wort sold. Each year, there is approximately 246 million gallons of beer sold in Indiana, 7.5 million gallons of liquor, and 7.8 million gallons of wine. The revenue collected is distributed to the state General Fund, the Post War Construction Fund, the Dept. of Revenue Collection and Enforcement Fund, the Pension Relief Fund, the Addiction Services Fund, and the Wine and Grape Market Development Fund. One half of the tax revenue that is distributed to the state General Fund is allocated to cities and towns.

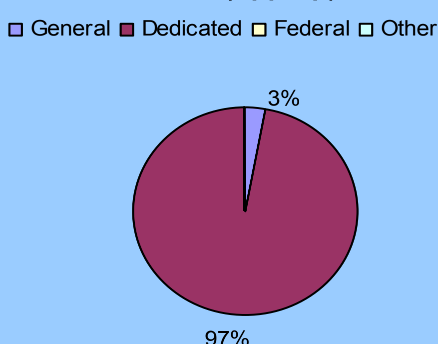
Cigarette and Tobacco Products Tax

Cigarette and tobacco product distributors in Indiana are required to purchase tax stamps for their products. In FY03, $352.4 million was collected. The revenue from these stamps is distributed to the Cigarette Tax Fund, the Mental Health Centers Fund, the state General Fund, and the Pension Relief Fund. Two-thirds of the distribution to the Cigarette Tax Fund is allocated to cities and towns.

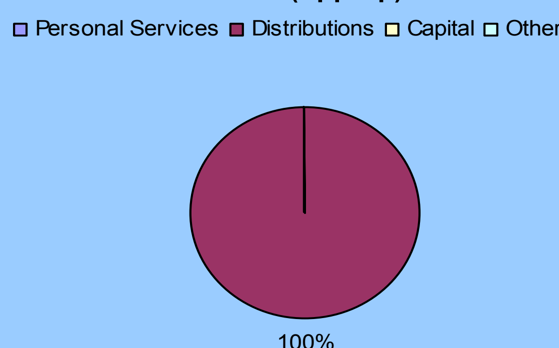
Program: 1105

	Actual FY 2001	Actual FY 2002	Estimate FY 2003	Appropriation FY 2004	Appropriation FY 2005
(All Funds)	**$272,483,688**	**$263,013,018**	**$397,298,480**	**$262,598,480**	**$262,898,480**

Sources of Funds
FY 2004 (Approp)



Uses of Funds
FY 2004 (Approp)



Financial Reserves

Mission

To provide financial security and to pay for State expenditures that are difficult to predict or estimate.

Summary of Activities

The State Budget Agency (SBA) manages three contingency funds that are designed to provide a safety net for unpredictable state expenditures, provide for salary and fringe benefit increases for state employees and fund enrolled acts passed by the General Assembly. The three funds are the Departmental and Institutional Emergency Contingency Fund, the Personal Services/Fringe Benefits Contingency Fund, and the Outside Bill Contingency Fund.

Funds from the Departmental and Institutional Emergency Fund may be allotted to state agencies, departments and institutions that demonstrate additional funds are needed for meeting necessary expenses due to unforeseen circumstances. These funds are transferred only upon approval by the governor.

Money in the Personal Services/Fringe Benefits Contingency Fund may only be used for salary increases, fringe benefit increases, and for an employee leave conversion program for State employees. This fund is used to pay for increases in the compensation and benefit programs of General Fund state employees. The funds may not be used for any other purposes. The funds will only be allotted with approval of the Governor.

The Outside bill Contingency Fund is used to fund bills passed by the General Assembly that impact the General Fund by increasing the expenditures of the State.

Evaluation and Accomplishments

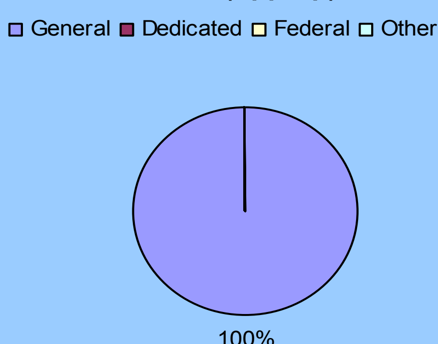
Even in these tough financial times, the money in these funds allowed the State to accomplish the following actions.

- Continue to pay a substantial share of the cost of the State employees' health insurance programs.
- Provide a $1,094 Health Care Adjustment to all State employees' annual salary to pay for the increased cost of health care in 2003.
- Provide a general salary adjustment to all state employees effective January, 2004.

Program: 1110

	Actual FY 2001	Actual FY 2002	Estimate FY 2003	Appropriation FY 2004	Appropriation FY 2005
(All Funds)	$125,043,330	$101,375,689	$0	$57,900,000	$57,900,000

Sources of Funds FY 2004 (Approp)



Uses of Funds FY 2004 (Approp)